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**TOP SECRET**

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FAR EAST

25X1A 2. Effect of Korean War on Chinese civilian morale:

In a conversation with the US Minister in Saigon, [redacted] stated that casualty lists and news of Chinese defeats were being carefully withheld from

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the public. Wounded have been kept out of heavily populated areas of China proper even at the expense of denying them better hospital facilities. He added, however, that "volunteers" appear reluctant to proceed to Korea at this time and he described the general population as disillusioned with the Red regime.

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In addition, the source reported this opposition lacks any effective means for a successful counterrevolution. Only the student and some worker groups evince any enthusiasm for the current regime which apparently is capable of enduring, in the absence of outside interference, for decades to come.

Comment: The above observations have been supported by a great variety of sources. A recent report on the arrival of Korean casualties in the Shanghai area emphasized the precautions taken to limit contacts with the local populace.

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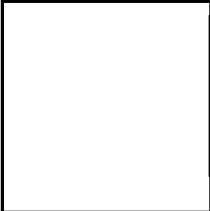
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## EASTERN EUROPE

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5. State Department proposes countermeasures to Oatis' conviction:

The US Department of State now considers it imperative to take action against the Czechoslovak regime in retaliation for the Oatis Affair. The Department expresses its views

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to US HICOG Frankfurt and US Ambassador Briggs in Prague that, by giving Oatis an effective sentence of five years and by explicitly mentioning his expulsion at the end of that period, the Czechoslovak Government may have left itself in a flexible position. To take advantage of this potential opportunity, the Department advances the following possible countermeasures: (a) an embargo on US exports; (b) the blocking of Czechoslovak assets in the US; and (c) the denial of military permits for Czechoslovak travel in Western Germany. In the opinion of the Department, the ban on military permits offers the best recourse for quick post-trial action. To this end, HICOG is instructed urgently to obtain British and French concurrence in this step. The Department also suggests that Ambassador Briggs might approach the Czechoslovak Ministry of Foreign Affairs with a view to an exchange of Oatis for one or more Czechoslovaks now imprisoned in the US Zone of Germany.

Comment: In a reply to a 28 June Department of State cable advancing similar ideas, HICOG expressed doubt whether the British and French Governments would concur in a tripartite ban on military permits and stated that such a ban would create unfavorable reaction in German business circles. HICOG has also stated that the possibility of trading Oatis for imprisoned Czechoslovaks is questionable, because Prague has shown no official interest in the approximately 100 Czechoslovaks imprisoned in the US Zone, of whom only five or six are serving terms for espionage.

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US exports to Czechoslovakia during 1950 totaled approximately \$6,000,000 worth of non-strategic commodities. A ban on Czechoslovak imports into the US would eliminate a source of hard currency which provided Czechoslovakia with nearly \$37,000,000 during 1950.

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## WESTERN EUROPE

### 6. Togliatti's views on Italian Communism after the recent election:

At a recent meeting of the Communist Party's Central Committee, Togliatti delivered one of the most soft-spoken reports he has ever made, devoted mainly to an analysis of the elections. He concluded that the Communist bloc gained votes primarily because the working and lower middle classes felt that in voting Communist they were protesting against economic injustices.

Togliatti was pleased that the Communists had been able to escape the label of an "anti-national force." He rejected the doctrine that the Communist Party's immediate objective was "socialist revolution" and insisted that its short-term objective was gradually to undermine capitalism.

US Embassy Rome comments that Togliatti feels satisfied as a result of the elections that the Communists may serve as a disintegrating force, helping to spread military defeatism, pacifism and neutrality. The Embassy believes that so long as the less privileged members of society see no alternative to a party which to them stands for progress, Communism will remain a fundamental problem.

Comment: Progressive elements in the Christian Democratic Party feel that social reforms must be stressed, even while rearmament is in progress. The Italian Government is well aware of the psychological shortcomings in Western propaganda efforts and has continued to urge more initiative in seeking to overcome them. There is a need in Italy for a strong anti-Communist Party which could convince workers that it represents their interests. The democratic Socialists appear best able to fulfill this role.

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25X1A 7. Government moves to bar Spanish lead sales to Soviet bloc:

[Redacted]

The Spanish Government reportedly has issued an order on 4 July suspending all lead export licenses. Henceforth, export sales applications must be accompanied by a certificate of

ultimate destination. It is rumored among Spanish lead producers and dealers that US approval of end-users will be required. Meanwhile, 1,000 metric tons of lead consigned to the Societe Financiere Economique of Vadux (SFEE), Liechtenstein, were shipped from Cartagena, Spain, on 28 June and are believed destined for the Soviet bloc.

Comment: The SFEE is the most active intermediary for Soviet satellite buyers of Spanish lead. The Spanish Government's order follows closely upon the visit to Spain of SFEE's owner, M. Antonioli. He personally placed the order for an additional 500 metric tons of lead sheet, and frankly admitted to Spanish officials that the lead was destined for Czechoslovakia -- the first clear proof that the SFEE is engaged in this type of East-West trade.

[Redacted]

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[Redacted] The Spanish Government to date has allocated lead export licenses either under compensation barter agreements for scarce materials or to buyers offering the highest price; it has met all US objections concerning lead shipments by disclaiming knowledge as to their ultimate destination.

8. Comments on Saar Issue:

Acrimonious debate over the Saar question, generating ill-feeling between Germany and France, is bound to continue until a German peace treaty or other agreement makes a final disposition of the territory. This much has been made clear again in the renewed debates over the Saar in the West German Bundestag, and in a recent speech by Jakob Kaiser, the Federal Republic's Minister for All-German Affairs, calling for self-determination for the people of the Saar.

While the basic question involved in the dispute is whether the area will again become part of Germany, the immediate question raised in the latest phase of the debate is that of democratic practice in the Saar. This phase began in May when the Saar Government banned the Democratic Party (DPS) on the grounds that its agitation for reunion with Germany aimed at upsetting the present order. Chancellor Adenauer reacted by asking the Allies to restore democratic freedom in the Saar.

There is little room for doubt that the French discourage the free development of the will of the Saarlanders. A US representative in France estimates that 80 to 85 percent of the people would vote in favor of complete reintegration with Germany if a plebiscite were held. Yet even the possibility of holding a plebiscite is a forbidden topic of discussion in the Saar press. Still, it is ironic that, as part of its campaign for democratic practice in the Saar, the Bonn Government should find itself defending the DPS, which experienced a very undemocratic putsch last summer and has been identifying itself more openly with the interests of former Nazis. The DPS appears to have received a subsidy of 800,000 Deutsche Marks from Jakob Kaiser.

Chancellor Adenauer has expressed the hope that initiation of the Schuman Plan will automatically solve the Saar problem, but it is precisely this problem which at the moment threatens German acceptance of the Plan just as it threatened German acceptance of membership in the Council of Europe last year.

## SCANDINAVIA

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### 9. Social Democrats hold lead in Finnish Diet elections:

US Legation, Helsinki reports that preliminary results of the recent elections for the 200 seats in the Finnish Diet place the Social Democrats in the lead, although the Communists gained a total of seven seats leaving them the third most important Finnish party.

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Comment: Preliminary Finnish comment on the elections attributes the Communist gain partly to the apathy of the center and right parties in getting out their votes, and partly to public dissatisfaction with the coalition government's ineffective anti-inflation policies. With the Social Democrats now the largest party in the Diet, it is probable that a coalition government will be formed under a Social Democratic Prime Minister, with the Communists still excluded.